

4. Study the extract below and answer the questions that follow.

**Car subsidies blow good money out of the exhaust**

- ❶ The Australian government intends to reduce tariffs on foreign car imports from 10% to 5% in 2010. They say the future of the industry lies in “innovation and global integration, not industry protection with old-fashioned **quotas** and tariffs”. However, its plan keeps protection for the Australian car industry through increased subsidies, doubling industry assistance to 6.2 billion Australian dollars.
- ❷ The 1.3 billion Australian dollars Green Car Innovation Fund provides some environmental respectability to an outdated industry policy. However, Australia can import as many fuel efficient cars as it wants without having to make them itself.
- ❸ Car makers are already responding to the **demand** for more fuel-efficient cars and the car industry does not need further incentives. If the government’s intention is to lower carbon emissions from car use in Australia, then it should aim to provide consumers with access to low-emission cars at the cheapest possible price. Lowering tariffs on imported cars achieves this objective at a much lower cost than building cars locally.
- ❹ The government argues “only 15 countries, including Australia, can design, engineer and build a car from scratch” and says its car plan “demonstrates the government’s commitment to modern manufacturing and to providing high-skill, high-wage jobs for Australians”. The notion that only the car industry can provide high-skill, high-wage jobs is mistaken.
- ❺ What cost will taxpayers pay for the government’s determination to maintain the capacity to build cars locally? The billions of dollars in help provided by successive Australian governments to the local car industry has come at the expense of consumers and taxpayers, destroying jobs and income in other industries. This is the real, but largely unseen, cost of industry assistance.
- ❻ The new car plan is the latest of many support packages for this industry, yet the government argues things will be different this time, with “a high level of support at the beginning, eventually falling towards zero”.
- ❼ The car industry has failed to benefit from the efforts of previous Australian governments to support it, because such support limits the competitive pressures that are the best guarantee of a competitive car industry.

Source: “Car subsidies blow good money out the exhaust” by Dr Stephen Kirchner (Source: Sydney Morning Herald), 11 November 2008, News and Features, page 13. Used with the author’s permission.

*(This question continues on the following page)*

*(Question 4 continued)*

- (a) Define the following terms indicated in bold in the text:
- (i) quotas (*paragraph 1*) *[2 marks]*
  - (ii) demand (*paragraph 3*). *[2 marks]*
- (b) Using an appropriate diagram, explain how reduced tariffs are likely to affect the Australian car industry. *[4 marks]*
- (c) Using an appropriate diagram, explain how increased subsidies will impact on the production of cars in Australia. *[4 marks]*
- (d) Using information from the text/data and your knowledge of economics, evaluate whether increased protection for the Australian car industry will benefit the Australian economy. *[8 marks]*